Analysis of Book Value Insolvency of Indian Commercial Banks

(A Comparative Study of Indian Public Sector and Private Sector banks)

A Synopsis

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Introduction

Indian banking has come an extended manner due to the fact independence and has simply converted itself from a totally regulated institution to a live, colorful agency responding to environmental dynamics. Banks play a vital role in the development of any country as it is the backbone of any country. From last few years, Indian banking system has developed a lot. Indian banking system accepted new technologies, new techniques and new policies which made the working environment easy for everyone. Insolvency means the value of bank liabilities is more than the bank assets as a result bank is unable to cover any losses. Banks are unable to pay their debts on the due date. Now-a-days, banks have to face many risks such as liquidity risk, market risk, credit risk, insolvency risk and interest rate risk. For handling this type of risk, banks should be sound good.

Indian Banking System:

In 1786, standard financial institution of India was installed and it became the first improvement in the structural banking system in India. Later financial institution of Hindustan and Bengal financial institution got here into existence. The East India enterprise hooked up 3 banks, the financial institution of Bengal (1809), the financial institution of Bombay (1840) and the financial institution of Madras (1843). Those banks had been amalgamated in 1920 to form Imperial bank of India. The Imperial bank became Nationalized and was renamed as State Bank of India (SBI) within the year 1955 to enhance social manipulate a good way to treatment the simple weak point of Indian Banking System and to ensure that banks might cater to the desires of the hither to forget and weaker sections of network instead of huge enterprise and people linked with them. The Reserve Bank of India (RBI) came into existence in 1935. The RBI has a centralized manipulate over a lot of these banks and performs an extensive range of functions together with problem of bank notes, supervise and administer change manipulate, banking rules, furnish licenses to new banks and to new financial institution branches and so forth.

Commercial Banks:

Commercial bank established in Bombay Presidency (Presently, Mumbai) in 1845 of the British Raj Period. Commercial banks are those banks which accept deposits from the people and grant

short term loans to those persons who are in need of money. Commercial Banks work under the supervision and guidelines of Reserve Bank of India (RBI).

Nationalization of Banks:

Nationalization term means that the government has the power over the management and ownership of the commercial banks. In 1969, Government nationalized 14 banks on the basis of their deposits. Government took this step to encourage the people for the nation's social and economic development. Nationalization of banks creates the public confidence in the banking system.

Some people argue against the nationalization of banks as this step is highly undemocratic. This concept does not fit into the democratic socialism. This leads to corruption, inefficiency etc. due to lack of incentives.

Privatization of Banks:

Keeping in mind the poor performance of the nationalized banks, the Narashimhan Committee suggested the government that there should be lesser intervention of the RBI on the credit creation and lending operations of the commercial banks. Private Sector Commercial banks and even foreign banks should be allowed to start operations. The Private Sector Commercial banks are allowed to raise capital contribution upto 40% and 20% from NRIs and from Foreign Institutional Investors respectively. In India, there are 23 private banks at present.

Book Value:

Value of an asset that appeared in the balance sheet of the company is the book value of the assets. Book value is also known as Net Assets value, calculated as Total Assets minus Intangible Assets and liabilities. As book value represents the shareholder's worth, shareholders can compare their share value with market value whether it is under-priced or over-priced.

Insolvency:

Insolvency term states when individual or organization is unable to pay off their debts on the due date even when value of total assets are more than the total liabilities is called cash flow

insolvency or lack of liquidity. Insolvency can also value of total assets is less than the value of total liabilities. Insolvency can arise when increase in the expenses, poor cash management or wrong forecast related to cash inflow.

Review of Literature

International Reviews

S.No	Year	Author Name	Title of Paper	Findings
1	2014	Leila Bateni, Hamidreza Vakilfard and Farshid Asghari	The Influential factors on Capital Adequacy ratio in Iranian Banks.	Capital adequacy ratio and bank size have negative impact while Loan Asset Ratio, Equity ratio, Return on Assets, Return on Equity have positive relationship.
2	2013	Sergei A. Davydenko	Insolvency, Illiquidity and the Risk of default.	The marginal contribution of illiquidity is smaller and depends on financing constraint, the firm's access is restricted to external financing.
3	2012	Fatih Macit and Zeynep Topaloglu	Why bank market value to book value ratios so different: evidence from Turkish banking sector	The market value of Foreign and Public Banks is higher in comparison to book value on the other hand, the market value of Investment and Participation Bank is lower to book value ratio.
4	2009	Laeven and Levine	Bank Governance, Regulation and Risk Taking	Banks have good risk management who have high shareholders rights
5	2007	Odesanmi and Wolfe	Revenue Diversification and Insolvency Risk: Evidence from Banks in Emerging Economics	Insolvency risk reduces by diversification activated related to interest and non-interest income
6	2006	Robert R. Bliss and George G. Kaufman	U.S. Corporate and bank insolvency regimes: An Economic comparison and Evaluation	The effectiveness of the procedural difference in achieving the stated goal is explored by the difference between corporate bankruptcy and bank receivership.

National Reviews

S.No	Year	Author Name	Title of Paper	Findings
1	2015	Dr. Ranjan Aneja and Anita Makkar	Book Value Insolvency of Commercial Banks: A Comparative Study between Indian new Private Sector and old Private Sector Commercial Banks	Insolvency of Indian Private Banks is affected by the bank size determinant.
2	2015	Anita Makkar and Shweta Singh	Financial Viability of Banks in emerging economies	For the successful survival of banks in emerged as well as in emerging countries dimensions, i.e. liquidity, profitability and solvency describing financial viability of banks is highly significant.
3	2014	Roli Pradhan	Z-score estimation for Indian Banking System.	This paper lays effect on usage of BPNN to predict bankruptcy for public sector banks in India.
4	2012	Krishna Murari	Insolvency risk and Z-index for Indian Banks:A Probabilistic Interpretation of Bankruptcy	Bank value bankruptcy reduced over the years and probability of bank value bankruptcy is higher in case of Private Sector Commercial banks and in foreign Banks as compared to Public Banks.
5	2011	Santi Gopal Mani, Soma Dev and Arvind Kr. Jha	Insolvency risk of selected Indian Commercial Banks:A comparative analysis	This study reveals that z statistic for all the selected banks show a positive improvement over the years. In case of Indian Public Sector shows a quite satisfactory level performance in this respect .
6	2009	Pankaj Singha, Varundeep Singh Taneja and Vineet Gothi	Evaluation of Riskiness of Indian Banks and Probability of Book Value Insolvency	It reveals reduction in book value insolvency for the years and shows that the probability of Private Sector Commercial banks is lower in case of book value insolvency in comparison to Public Banks.

Need of the study

Banks play an important role in the growth and development of a country. Due to change in the political environment, we are trying to check their impact of the book value insolvency on the financial position and capital adequacy of the selected Indian Public Sector and Private Sector Commercial banks. To undergo this research, insolvency risk, market rate risk, interest rate risk etc. are used to compare book value insolvency of the selected Commercial Banks.

Objective of the Study

Following are the various objectives of the study:-

1. To evaluate the book value insolvency of selected Indian Public Sector and Private Sector Commercial banks.
2. To identify impact of factors influencing the book value insolvency of selected Indian Public Sector and Private Sector Commercial banks.
3. To know the impact of the book value insolvency on the financial position and capital adequacy of selected Indian Public Sector and Private Sector Commercial banks.
4. To make a comparative study of the book value insolvency of selected Indian Public Sector and Private Sector Commercial banks.
5. To develop a strategic action plan for managing book value of the selected Indian Public Sector and Private Sector Commercial banks.

Hypotheses

The Proposed Research Study is based on two Null Hypotheses. These are as follows:

H_1: There is a significant difference between the book value insolvency of selected Indian Public Sector and Private Sector Commercial banks.

H_O: There is no significant difference between the book value insolvency of selected Indian Public Sector and Private Sector Commercial banks.

H_2: There is a significant impact of book value insolvency on financial position and capital adequacy of selected Indian Public Sector and Private Sector Commercial banks.

Ho_1: There is no significant impact of book value insolvency on financial position and capital adequacy of selected Indian Public Sector and Private Sector Commercial banks.

Research Methodology

1. Research Design

The study will be descriptive as well as analytical in order to achieve specific objectives.

2. Duration of the Study

4 years of data of selected Commercial Banks will be taken in this research study, i.e. Financial Year 2014-2015 to 2017-2018.

3. Sample Size

For achieving different objectives, top Four Public Sector and Four Private Sector Commercial banks in India are selected on the criteria of Market Capital value listed on Nifty Bank Index as on 1 April, 2014 will be taken in this research study:

S.No.	Indian Public Sector	Indian Private Sector Bank
1.	State Bank of India.	ICICI Bank.
2.	Punjab National Bank.	HDFC Bank.
3.	Bank of Baroda.	Axis Bank.
4.	Canara Bank.	Yes Bank.

4. Data Collection

Secondary records will be collected through various publications of Ministry of Finance, Reporting Bulletin of Reserve Bank of India (RBI), and Annual reports of the selected commercial Banks from their websites.

5. Statistical Tools

The following statistical tools will be applied in this research study:

(a) Ratio analysis,

(b) Z score Model

(c) t-test

6. Step wise process Data Analysis and Interpretation:

Step 1: Firstly the data will be collected from the bulletin of RBI, Annual report of RBI, Statistical data of finance ministry of India, website and annual reports of the selected Commercial bank.

Step 2: Calculation of book value of the selected commercial bank.

Step 3: After the calculation of book value, I will check insolvency position of the selected commercial banks as the book value of the selected commercial banks is lower than the value of liabilities of the selected commercial banks of each year.

Step 4: The various ratios will be calculated of the selected Commercial banks for the purpose of meeting objective 1 and 3.

Step 5: The Z score model will be implemented for checking the book value insolvency of the selected Commercial Banks for the purpose of meeting objective 1 and 3 / the various factors will be analyses which are affecting the book value of the selected Commercial banks for the purpose of meeting objective 2 / t-test will be used to make comparative analysis of parameters of the selected Commercial banks for the purpose of meeting objective 4.

Step 6: Interpretation will be made from the calculations done in the above steps.

Step 7: The effective and valuable Strategic action plan will be made from the facts achieved from the above steps for the purpose of meeting objective 5.

Step 8: Finding and suggestions will be given on the basis of results from the analysis.

Objective Wise Research Methodology

S.No	Objectives	Research Methodology
1.	To evaluate the book value insolvency of selected Indian Public Sector and Private Sector Commercial banks.	This objective will be attained by using ratio analysis and Z score model.
2.	To identify impact of factors influencing the book value insolvency of selected Indian Public Sector and Private Sector Commercial banks.	This objective will be attained by analyzing annual reports of selected Indian Public Sector and Private Sector Commercial banks.

S.No	Objectives	Research Methodology
3.	To know the impact of the book value insolvency on the financial position and capital adequacy of selected Indian Public Sector and Private Sector Commercial banks.	This objective will be achieved by using ratio analysis and Z score model
4.	To make a comparative study of the book value insolvency of selected Indian Public Sector and Private Sector Commercial banks.	This objective will be achieved by using t-test.
5.	To develop a strategic action plan for managing book value of the selected Indian Public Sector and Private Sector Commercial banks	This objective will be attained by using the various outcomes of this study.

Proposed Plan of Study

Chapter-1	• Introduction • Review of Literature • Profile of selected Commercial Banks in India • Research Methodology
Chapter-2	Study of book value insolvency of selected Public Sector and Private Sector Commercial banks.
Chapter-3	Impact of the book value insolvency on the financial position and capital adequacy of selected Indian Public and Private Sector Commercial bank.
Chapter-4	Comparative study of the book value insolvency of Indian Public Sector and Private Sector Commercial banks.
Chapter-5	Strategic Action Plan for Book Value Management.
Chapter -6	Findings, Conclusion and Suggestions

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